

City of Plainwell
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2008

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - vii
INDEPENDENT AUDITORS' REPORT	3 - 4
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net assets	5
Statement of activities	6
Fund financial statements:	
Balance sheet - governmental funds	7
Statement of revenues, expenditures, and changes in fund balances - governmental funds	8 - 9
Statement of net assets - proprietary funds	10
Statement of revenues, expenses and changes in fund net assets - proprietary funds	11
Statement of cash flows - proprietary funds	12 - 13
Statement of fiduciary net assets - agency fund	14
Notes to financial statements	15 - 26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedules:	
General Fund	27 - 28
Major Street Fund	29
Fire Reserve Fund	30
Capital Improvement Fund	31
SUPPLEMENTARY INFORMATION	
Combining balance sheet - nonmajor governmental funds	32
Combining statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds	33
OTHER SUPPLEMENTARY DATA	
Schedule of bond retirement and annual interest requirements	34

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Plainwell
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Plainwell's (the City) financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets decreased by \$80,887 as a result of this year's activities. Net assets of the governmental activities decreased by \$72,195, and net assets of the business-type activities decreased by \$8,692.
- Of the \$9,764,848 total net assets reported, \$2,041,362 (21 percent) is unrestricted, or available to be used at the Council's discretion.
- The General Fund's unreserved fund balance at the end of the fiscal year was \$394,011, which represents 22 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The City's annual financial report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for the nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2008 and 2007 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the City's basic services are included here, such as police and fire protection and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems and airport operations are reported here.
- *Component units* - The City includes other entities in its report - the Plainwell Tax Increment Finance Authority, the Plainwell Brownfield Redevelopment Authority, and the Plainwell Downtown Development Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The City Council establishes other funds to control and manage money for particular purposes (like the Fire Reserve and Capital Improvement funds) or to show that it is properly using certain taxes and other revenues (like property taxes collected for solid waste and motor fuel taxes collected for the street funds).

The City has three kinds of funds:

1. *Governmental funds*. Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

2. *Proprietary funds.* Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - The City uses an internal service fund (the other type of proprietary fund) to report activities that provide services for the City's other programs and activities. The City's internal service fund is its Equipment Fund that manages the City's fleet of vehicles and equipment.
3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$9,764,848 compared to \$9,845,735 at the end of the prior year. Of this total, \$7,391,503 is invested in capital assets and \$331,983 is restricted for various purposes. Consequently, unrestricted net assets were \$2,041,362, or 22 percent of the total.

Condensed financial information
Net assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 2,135,977	\$ 2,179,890	\$ 557,639	\$ 402,944	\$ 2,693,616	\$ 2,582,834
Capital assets	<u>1,782,728</u>	<u>1,787,362</u>	<u>6,578,775</u>	<u>6,775,303</u>	<u>8,361,503</u>	<u>8,562,665</u>
Total assets	<u>3,918,705</u>	<u>3,967,252</u>	<u>7,136,414</u>	<u>7,178,247</u>	<u>11,055,119</u>	<u>11,145,499</u>
Long-term debt outstanding	-	-	970,000	1,040,000	970,000	1,040,000
Other liabilities	<u>218,656</u>	<u>195,008</u>	<u>101,615</u>	<u>64,756</u>	<u>320,271</u>	<u>259,764</u>
Total liabilities	<u>218,656</u>	<u>195,008</u>	<u>1,071,615</u>	<u>1,104,756</u>	<u>1,290,271</u>	<u>1,299,764</u>
Net assets:						
Invested in capital assets, net of related debt	1,782,728	1,787,362	5,608,775	5,735,303	7,391,503	7,522,665
Restricted	331,983	518,102	-	-	331,983	518,102
Unrestricted	<u>1,585,338</u>	<u>1,466,780</u>	<u>456,024</u>	<u>338,188</u>	<u>2,041,362</u>	<u>1,804,968</u>
Total net assets	<u>\$ 3,700,049</u>	<u>\$ 3,772,244</u>	<u>\$ 6,064,799</u>	<u>\$ 6,073,491</u>	<u>\$ 9,764,848</u>	<u>\$ 9,845,735</u>

City of Plainwell
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The City's total revenues were \$4,073,039. Approximately 36 percent of the City's revenues come from property taxes and another 35 percent come from utility charges. Only 10 percent of the City's total revenues come from state shared revenue.

The total cost of all the City's programs, covering a wide range of services, totaled \$4,153,926. Approximately 32 percent of the City's costs relate to the provision of utility services. Public safety costs account for 27 percent and public works costs account for 22 percent of the City's total costs.

Changes in net assets						
	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Program revenues:						
Charges for services	\$ 153,498	\$ 177,915	\$ 1,473,652	\$ 1,385,512	\$ 1,627,150	\$ 1,563,427
Operating grants and contributions	358,581	349,088	-	-	358,581	349,088
Capital grants and contributions	-	40,950	-	-	-	40,950
General revenues:						
Property taxes	1,476,948	1,477,621	-	-	1,476,948	1,477,621
State shared revenue	411,990	416,791	-	-	411,990	416,791
Unrestricted interest income	104,731	119,112	28,661	34,372	133,392	153,484
Other	64,978	94,107	-	20,000	64,978	114,107
Transfers	91,965	92,743	(91,965)	(92,743)	-	-
Total revenues	<u>2,662,691</u>	<u>2,768,327</u>	<u>1,410,348</u>	<u>1,347,141</u>	<u>4,073,039</u>	<u>4,115,468</u>
Expenses:						
Legislative	9,150	9,150	-	-	9,150	9,150
General government	385,622	410,639	-	-	385,622	410,639
Public safety	1,124,568	1,150,179	-	-	1,124,568	1,150,179
Public works	925,293	671,842	-	-	925,293	671,842
Community and economic development	74,929	75,670	-	-	74,929	75,670
Recreation and culture	215,324	204,390	-	-	215,324	204,390
Sewer	-	-	933,645	881,397	933,645	881,397
Water	-	-	408,733	414,056	408,733	414,056
Airport	-	-	76,662	88,479	76,662	88,479
Total expenses	<u>2,734,886</u>	<u>2,521,870</u>	<u>1,419,040</u>	<u>1,383,932</u>	<u>4,153,926</u>	<u>3,905,802</u>
Special item - capital contribution to component unit	<u>-</u>	<u>(722,593)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(722,593)</u>
Decrease in net assets	<u>\$ (72,195)</u>	<u>\$ (476,136)</u>	<u>\$ (8,692)</u>	<u>\$ (36,791)</u>	<u>\$ (80,887)</u>	<u>\$ (512,927)</u>

Governmental activities. Governmental activities decreased the City's net assets by \$72,195 compared to a \$476,136 decrease in the prior year. The substantial decrease in the prior year was the result of a capital contribution to the Brownfield Redevelopment Authority, in the amount of \$722,593.

In the current year, revenues decreased by \$105,636 because virtually every significant revenue category declined compared to the prior year. Also, nearly 41,000 in capital grants were recognized in the prior year while none occurred in the current year. At the same time, expenses increased by \$213,016. The increase in expenses is almost entirely due to costs incurred by the Brownfield Redevelopment Authority and the Downtown Development Authority that were financed by the City's Capital Improvement Fund.

The cost of all governmental activities this year was \$2,734,886. After subtracting the direct charges to those who directly benefited from the programs (\$153,498), and operating grants and contributions (\$358,581), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$2,222,807.

Business-type activities. Business-type activities decreased the City's net assets by \$8,692 in the current fiscal year compared to a \$36,791 decrease in the prior year. The decreases can be explained by the fact that billing rates are not set to cover the full cost of operations, including depreciation, and transfers to the General Fund from the City's utility systems.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,798,941, a decrease of \$88,596 in comparison with the prior year. Of the total fund balances, \$11,991 is reserved for public safety expenditures. The remainder of the fund balances is unreserved and, therefore, available for spending at the Council's discretion. A portion of the City's governmental fund balances, in the amount of \$1,072,947, has been designated for future capital purchases.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$394,011, which represents 22 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance increased by \$98,866 during the fiscal year primarily due to the collection of transfers from the City's proprietary funds in the amount of \$91,965.

The Major Street Fund experienced an increase in fund balance of \$18,337 during the fiscal year because revenues exceeded street maintenance and preservation costs in the current year.

The Fire Reserve Fund experienced an increase in fund balance of \$103,975 because property taxes and interest revenues exceeded the costs of capital acquisitions in the current year.

The Capital Improvement Fund experienced a decrease in fund balance of \$105,878 during the fiscal year because it contributed \$209,144 to finance the operations of two of the City's component units in the current year.

City of Plainwell
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Proprietary funds.

The Sewer Fund experienced a decrease in net assets of \$18,417 while the Water Fund experienced an increase in net assets of \$18,337. The Sewer Fund's decrease comes as a result of a \$57,000 transfer to the General Fund. The net assets of the Water Fund increased due to a \$31,185 (8 percent) increase in water billings.

General Fund budgetary highlights

Revenues and transfers in were \$1,480 less than anticipated.

Total budgeted expenditures were increased by \$47,514 during the year to reflect anticipated cost increases in a variety of departments, none of which were individually significant. Total expenditures were \$95,250 less than the amounts appropriated. The Public Safety Department's costs were \$50,374 less than appropriated because personnel costs were less than anticipated and general government costs, in total, were \$30,807 less than expected.

These variances resulted in a \$93,770 positive budget variance and a \$98,866 increase in fund balance compared to a budgeted increase of \$5,096.

Capital assets and debt administration

Capital assets:

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$8,361,503 (net of accumulated depreciation). This investment includes a broad range of assets including land, buildings, police and fire equipment, and sewer and water facilities. The decrease in the City's net investment in capital assets for the current fiscal year was \$201,162.

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
Land	\$ 335,970	\$ 48,196	\$ 384,166
Infrastructure	761,631	6,530,579	7,292,210
Buildings and improvements	340,832	-	340,832
Equipment and vehicles	344,295	-	344,295
Totals	<u>\$ 1,782,728</u>	<u>\$ 6,578,775</u>	<u>\$ 8,361,503</u>

Major capital asset events during the current fiscal year included the following:

- Infrastructure improvements, consisting of street preservation projects, were completed with costs amounting to \$81,610.
- The internal service fund acquired a leaf loader for \$27,000.

INDEPENDENT AUDITORS' REPORT

**City Council
City of Plainwell, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Plainwell, Michigan, as of June 30, 2008, and for the year then ended, which collectively comprise the City of Plainwell, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City of Plainwell, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Plainwell, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Plainwell, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Plainwell, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

October 29, 2008

BASIC FINANCIAL STATEMENTS

City of Plainwell
STATEMENT OF NET ASSETS
June 30, 2008

	<i>Primary government</i>		
	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash	\$ 1,716,255	\$ 606,620	\$ 2,322,875
Receivables	215,207	155,534	370,741
Internal balances	204,515	(204,515)	-
Total current assets	<u>2,135,977</u>	<u>557,639</u>	<u>2,693,616</u>
Noncurrent assets:			
Assets held for resale - redevelopment property	-	-	-
Capital assets not being depreciated - land	335,970	48,196	384,166
Capital assets, net of depreciation	<u>1,446,758</u>	<u>6,530,579</u>	<u>7,977,337</u>
Total noncurrent assets	<u>1,782,728</u>	<u>6,578,775</u>	<u>8,361,503</u>
Total assets	<u>3,918,705</u>	<u>7,136,414</u>	<u>11,055,119</u>
LIABILITIES			
Current liabilities:			
Payables	83,419	101,615	185,034
Bonds payable	-	70,000	70,000
Total current liabilities	<u>83,419</u>	<u>171,615</u>	<u>255,034</u>
Noncurrent liabilities:			
Compensated absences	135,237	-	135,237
Bonds payable	-	900,000	900,000
Total noncurrent liabilities	<u>135,237</u>	<u>900,000</u>	<u>1,035,237</u>
Total liabilities	<u>218,656</u>	<u>1,071,615</u>	<u>1,290,271</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,782,728	5,608,775	7,391,503
Restricted for:			
Public safety	11,991	-	11,991
Public works	319,992	-	319,992
Unrestricted	<u>1,585,338</u>	<u>456,024</u>	<u>2,041,362</u>
Total net assets	<u>\$ 3,700,049</u>	<u>\$ 6,064,799</u>	<u>\$ 9,764,848</u>

<i>Component units</i>		
<i>Tax Increment Finance Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Downtown Development Authority</i>
\$ 159,099	\$ 45,186	\$ 1,000
-	6,175	-
-	-	-
159,099	51,361	1,000
-	665,279	-
-	-	-
-	-	-
-	665,279	-
159,099	716,640	1,000
1,750	14,478	821
-	-	-
1,750	14,478	821
-	-	-
-	-	-
-	-	-
1,750	14,478	821
-	665,279	-
-	-	-
-	-	-
157,349	36,883	179
\$ 157,349	\$ 702,162	\$ 179

See notes to the financial statements

City of Plainwell
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government				
Governmental activities:				
Legislative	\$ 9,150	\$ -	\$ -	\$ -
General government	385,622	55,220	-	-
Public safety	1,124,568	98,278	-	-
Public works	925,293	-	358,581	-
Community and economic development	74,929	-	-	-
Recreation and culture	215,324	-	-	-
Total governmental activities	<u>2,734,886</u>	<u>153,498</u>	<u>358,581</u>	<u>-</u>
Business-type activities:				
Sewer	933,645	970,023	-	-
Water	408,733	435,759	-	-
Airport	76,662	67,870	-	-
Total business-type activities	<u>1,419,040</u>	<u>1,473,652</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,153,926</u>	<u>\$ 1,627,150</u>	<u>\$ 358,581</u>	<u>\$ -</u>
Component units				
Tax Increment Finance Authority	\$ 27,926	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	179,260	-	193,944	-
Downtown Development Authority	15,021	-	15,200	-
Total component units	<u>\$ 222,207</u>	<u>\$ -</u>	<u>\$ 209,144</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State shared revenue				
Unrestricted interest income				
Cable television franchise fees				
Miscellaneous				
Transfers				
Total				
Change in net assets				
Net assets - beginning				
Net assets - ending				

<i>Net (expenses) revenues and changes in net assets</i>					
<i>Primary government</i>			<i>Component units</i>		
<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Tax Increment Finance Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Downtown Development Authority</i>
\$ (9,150)		\$ (9,150)			
(330,402)		(330,402)			
(1,026,290)		(1,026,290)			
(566,712)		(566,712)			
(74,929)		(74,929)			
(215,324)		(215,324)			
<u>(2,222,807)</u>		<u>(2,222,807)</u>			
	\$ 36,378	36,378			
	27,026	27,026			
	<u>(8,792)</u>	<u>(8,792)</u>			
	54,612	54,612			
<u>(2,222,807)</u>	<u>54,612</u>	<u>(2,168,195)</u>			
			\$ (27,926)	\$ -	\$ -
			-	14,684	-
			<u>-</u>	<u>-</u>	<u>179</u>
			(27,926)	14,684	179
1,476,948	-	1,476,948	-	-	-
411,990	-	411,990	-	-	-
104,731	28,661	133,392	8,233	-	-
37,618	-	37,618	-	-	-
27,360	-	27,360	-	19,638	-
91,965	(91,965)	-	-	-	-
<u>2,150,612</u>	<u>(63,304)</u>	<u>2,087,308</u>	<u>8,233</u>	<u>19,638</u>	<u>-</u>
(72,195)	(8,692)	(80,887)	(19,693)	34,322	179
<u>3,772,244</u>	<u>6,073,491</u>	<u>9,845,735</u>	<u>177,042</u>	<u>667,840</u>	<u>-</u>
<u>\$ 3,700,049</u>	<u>\$ 6,064,799</u>	<u>\$ 9,764,848</u>	<u>\$ 157,349</u>	<u>\$ 702,162</u>	<u>\$ 179</u>

See notes to the financial statements

City of Plainwell
BALANCE SHEET - governmental funds
June 30, 2008

	<i>Major funds</i>			
	<i>General</i>	<i>Major Street</i>	<i>Fire Reserve</i>	<i>Capital Improvement</i>
ASSETS				
Cash	\$ 297,260	\$ 90,715	\$ 693,054	\$ 175,378
Receivables	173,419	30,650	-	-
Interfund receivable	-	-	-	204,515
Total assets	<u>\$ 470,679</u>	<u>\$ 121,365</u>	<u>\$ 693,054</u>	<u>\$ 379,893</u>
LIABILITIES AND FUND BALANCES				
Liabilities - payables	<u>\$ 64,677</u>	<u>\$ 2,939</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:				
Reserved for:				
Public safety	11,991	-	-	-
Long-term interfund receivable	-	-	-	204,515
Unreserved:				
Designated for capital acquisitions	-	-	693,054	175,378
Undesignated	394,011	118,426	-	-
Unreserved, reported in nonmajor - special revenue funds	-	-	-	-
Total fund balances	<u>406,002</u>	<u>118,426</u>	<u>693,054</u>	<u>379,893</u>
Total liabilities and fund balances	<u>\$ 470,679</u>	<u>\$ 121,365</u>	<u>\$ 693,054</u>	<u>\$ 379,893</u>

Total fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Some liabilities are not due and payable in the current period, and therefore, are not reported in the funds.

The assets and liabilities of the internal service fund are included in the *governmental activities* in the statement of net assets.

Net assets of *governmental activities*

<i>Nonmajor funds</i>	<i>Total governmental funds</i>
\$ 194,627	\$ 1,451,034
11,138	215,207
-	204,515
<u>\$ 205,765</u>	<u>\$ 1,870,756</u>
\$ 4,199	\$ 71,815
-	11,991
-	204,515
-	868,432
-	512,437
<u>201,566</u>	<u>201,566</u>
<u>201,566</u>	<u>1,798,941</u>
<u>\$ 205,765</u>	<u>\$ 1,870,756</u>
	\$ 1,798,941
	1,628,738
	(135,237)
	<u>407,607</u>
	<u>\$ 3,700,049</u>

See notes to financial statements

City of Plainwell

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended June 30, 2008

	<i>Major funds</i>			
	<i>General</i>	<i>Major Street</i>	<i>Fire Reserve</i>	<i>Capital Improvement</i>
REVENUES				
Property taxes	\$ 1,199,538	\$ -	\$ 90,257	\$ 90,257
Licenses and permits	53,890	-	-	-
State grants	411,990	191,183	-	-
Intergovernmental	55,398	16,855	-	-
Fines and forfeitures	26,608	-	-	-
Interest and rentals	33,215	5,042	28,868	13,159
Other	22,790	2,222	-	-
Total revenues	<u>1,803,429</u>	<u>215,302</u>	<u>119,125</u>	<u>103,416</u>
EXPENDITURES				
Legislative	9,150	-	-	-
General government	371,931	-	150	150
Public safety	1,074,275	-	-	-
Public works	101,447	299,813	-	209,144
Community and economic development	75,411	-	-	-
Recreation and culture	151,964	-	-	-
Capital outlay	33,942	-	-	-
Total expenditures	<u>1,818,120</u>	<u>299,813</u>	<u>150</u>	<u>209,294</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(14,691)</u>	<u>(84,511)</u>	<u>118,975</u>	<u>(105,878)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	113,557	-	-	-
Transfers out	-	-	(15,000)	-
Total other financing sources (uses)	<u>113,557</u>	<u>-</u>	<u>(15,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	98,866	(84,511)	103,975	(105,878)
FUND BALANCES - BEGINNING	<u>307,136</u>	<u>202,937</u>	<u>589,079</u>	<u>485,771</u>
FUND BALANCES - ENDING	<u>\$ 406,002</u>	<u>\$ 118,426</u>	<u>\$ 693,054</u>	<u>\$ 379,893</u>

<i>Nonmajor funds</i>	<i>Total governmental funds</i>
\$ 152,116	\$ 1,532,168
-	53,890
77,690	680,863
72,853	145,106
-	26,608
13,760	94,044
2,348	27,360
<u>318,767</u>	<u>2,560,039</u>
-	9,150
-	372,231
-	1,074,275
364,017	974,421
-	75,411
-	151,964
27,926	61,868
<u>391,943</u>	<u>2,719,320</u>
<u>(73,176)</u>	<u>(159,281)</u>
-	113,557
<u>(27,872)</u>	<u>(42,872)</u>
<u>(27,872)</u>	<u>70,685</u>
(101,048)	(88,596)
<u>302,614</u>	<u>1,887,537</u>
<u>\$ 201,566</u>	<u>\$ 1,798,941</u>

See notes to the financial statements

City of Plainwell

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2008

Net change in fund balances - total governmental funds \$ (88,596)

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital asset acquisitions	114,699
Deduct: Provision for depreciation	(104,411)

Changes in other liabilities:

Net increase in compensated absences	(11,408)
--------------------------------------	----------

The net income of the internal service fund are reported with
with *governmental activities*.

17,521

Change in net assets of *governmental activities*

\$ (72,195)

See notes to the financial statements

City of Plainwell
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2008

	<i>Business-type activities</i>			
	<i>Enterprise funds</i>			
	<i>Major funds</i>		<i>Nonmajor</i>	
	<i>Sewer</i>	<i>Water</i>	<i>fund</i>	<i>Totals</i>
ASSETS				
Current assets:				
Cash	\$ 30,256	\$ 559,106	\$ 17,258	\$ 606,620
Receivables	113,131	40,943	1,460	155,534
Total current assets	143,387	600,049	18,718	762,154
Noncurrent assets:				
Capital assets not being depreciated - land	400	17,346	30,450	48,196
Capital assets, net of depreciation	3,839,664	2,643,272	47,643	6,530,579
Total noncurrent assets	3,840,064	2,660,618	78,093	6,578,775
Total assets	3,983,451	3,260,667	96,811	7,340,929
LIABILITIES				
Current liabilities:				
Payables	64,855	35,796	964	101,615
Interfund loan	102,258	-	-	102,258
Bonds payable	-	70,000	-	70,000
Total current liabilities	167,113	105,796	964	273,873
Noncurrent liabilities:				
Interfund loan	102,257	-	-	102,257
Bonds payable	-	900,000	-	900,000
Total noncurrent liabilities	102,257	900,000	-	1,002,257
Total liabilities	269,370	1,005,796	964	1,276,130
NET ASSETS				
Invested in capital assets, net of related debt	3,840,064	1,690,618	78,093	5,608,775
Unrestricted (deficit)	(125,983)	564,253	17,754	456,024
Total net assets	\$ 3,714,081	\$ 2,254,871	\$ 95,847	\$ 6,064,799

***Governmental
activities***

***Internal
service***

\$ 265,221

-

265,221

-

153,990

153,990

419,211

11,604

-

-

11,604

-

-

-

11,604

153,990

253,617

\$ 407,607

See notes to the financial statements

City of Plainwell

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -

proprietary funds

Year ended June 30, 2008

	<i>Business-type activities</i>			
	<i>Enterprise funds</i>			
	<i>Major funds</i>		<i>Nonmajor</i>	
	<i>Sewer</i>	<i>Water</i>	<i>fund</i>	<i>Totals</i>
OPERATING REVENUES				
Charges for services	\$ 963,056	\$ 420,244	\$ 61,950	\$ 1,445,250
Other	6,967	15,515	5,920	28,402
Total operating revenues	970,023	435,759	67,870	1,473,652
OPERATING EXPENSES				
Administration	233,612	93,253	69,324	396,189
Treatment	422,232	95,850	-	518,082
Collection	73,187	81,728	-	154,915
Costs of interfund services	-	-	-	-
Depreciation	201,561	113,277	7,338	322,176
Total operating expenses	930,592	384,108	76,662	1,391,362
OPERATING INCOME (LOSS)	39,431	51,651	(8,792)	82,290
NONOPERATING REVENUES (EXPENSES)				
Interest revenues	2,205	24,911	1,545	28,661
Interest expenses	(3,053)	(24,625)	-	(27,678)
Total nonoperating revenues (expenses)	(848)	286	1,545	983
INCOME (LOSS) BEFORE TRANSFERS	38,583	51,937	(7,247)	83,273
TRANSFERS IN (OUT)				
Transfer in - Solid Waste Fund	-	-	-	-
Transfer out - General Fund	(57,000)	(33,600)	(1,365)	(91,965)
Total transfers in (out)	(57,000)	(33,600)	(1,365)	(91,965)
CHANGE IN NET ASSETS	(18,417)	18,337	(8,612)	(8,692)
NET ASSETS - BEGINNING	3,732,498	2,236,534	104,459	6,073,491
NET ASSETS - ENDING	\$ 3,714,081	\$ 2,254,871	\$ 95,847	\$ 6,064,799

***Governmental
activities***

***Internal
service***

\$ 240,860
2,867

243,727

-

-

-

215,944
42,229

258,173

(14,446)

10,687

-

10,687

(3,759)

27,000
(5,720)

21,280

17,521

390,086

\$ 407,607

See notes to the financial statements

STATEMENT OF CASH FLOWS - proprietary funds

Year ended June 30, 2008

	Business-type activities			
	Enterprise funds			
	Major funds		Nonmajor	
	Sewer	Water	fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 931,449	\$ 434,521	\$ 67,879	\$ 1,433,849
Receipts from interfund services provided	-	-	-	-
Payments to suppliers	(460,278)	(125,063)	(62,183)	(647,524)
Payments to employees	(235,036)	(123,126)	(5,166)	(363,328)
Internal activity - payments to other funds	(7,083)	(12,088)	(1,804)	(20,975)
Net cash provided by (used in) operating activities	229,052	174,244	(1,274)	402,022
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out - General Fund	(57,000)	(33,600)	(1,365)	(91,965)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer in	-	-	-	-
Acquisition of capital assets	(40,207)	(62,183)	(23,258)	(125,648)
Payment on interfund loan	(100,741)	-	-	(100,741)
Principal paid on capital debt	-	(70,000)	-	(70,000)
Interest paid on capital debt	(3,053)	(25,125)	-	(28,178)
Net cash used in capital and related financing activities	(144,001)	(157,308)	(23,258)	(324,567)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	2,205	24,911	1,545	28,661
NET INCREASE (DECREASE) IN CASH	30,256	8,247	(24,352)	14,151
CASH - BEGINNING	-	550,859	41,610	592,469
CASH - ENDING	\$ 30,256	\$ 559,106	\$ 17,258	\$ 606,620

***Governmental
activities***

***Internal
service***

\$ -
243,727
(155,518)
(59,517)

-

28,692

(5,720)

27,000
(27,307)

-
-
-

(307)

10,687

33,352

231,869

\$ 265,221

See notes to the financial statements

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended June 30, 2008

	<i>Business-type activities</i>			
	<i>Enterprise funds</i>			
	<i>Major funds</i>		<i>Nonmajor</i>	
	<i>Sewer</i>	<i>Water</i>	<i>fund</i>	<i>Totals</i>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 39,431	\$ 51,651	\$ (8,792)	\$ 82,290
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	201,561	113,277	7,338	322,176
Changes in assets and liabilities:				
Receivables	(38,574)	(1,238)	9	(39,803)
Payables	26,634	10,554	171	37,359
Net cash provided by (used in) operating activities	\$ 229,052	\$ 174,244	\$ (1,274)	\$ 402,022

*Governmental
activities*

*Internal
service*

\$ (14,446)

42,229

-

909

\$ 28,692

See notes to the financial statements

City of Plainwell

STATEMENT OF FIDUCIARY NET ASSETS - *agency fund*

June 30, 2008

ASSETS

Cash	\$ 80,843
Due from other governmental units	<u>230,931</u>
Total assets	<u>\$ 311,774</u>

LIABILITIES

Due to other governmental units	\$ 272,456
Due to others	<u>39,318</u>
Total liabilities	<u>\$ 311,774</u>

See notes to the financial statements

City of Plainwell
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Plainwell, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

Discretely presented component units:

Tax Increment Financing Authority, Brownfield Redevelopment Authority, and Downtown Development Authority:

These units are presented in separate columns in the financial statements to emphasize that they are legally separate from the City. Separate financial statements of the component units have not been issued, as management believes these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component units. Each component unit's governing body is appointed by the City Council and their budget must be approved by the City Council.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:
eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Fire Reserve Fund accounts for property taxes allocated from the general operating millage that are to be used to finance the costs of acquiring and maintaining fire trucks.

The Capital Improvement Fund accounts for property taxes allocated from the general operating millage that the City Council has designated for future capital improvements.

The City reports the following major enterprise funds:

The Sewer Fund accounts for the activities of the City's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the City's water distribution system.

The City reports two fiduciary funds, the Tax Collection Fund and the Payroll Fund, which account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Additionally, the City reports an internal service fund that accounts for vehicle and equipment management services provided to other departments of the City on a cost-reimbursement basis.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is allocated proportionately to all funds and component units.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to use the prospective method of accounting for infrastructure assets whereby it will capitalize its infrastructure assets beginning July 1, 2003, as permitted by GASB No. 34.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Capital assets (continued) - Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 25 years
Vehicles	4 - 20 years
Sewer and water systems	50 years
Streets	10 - 25 years

v) Compensated absences (vacation and sick leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition:

Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the functional level. All annual appropriations lapse at the end of the fiscal year. The City experienced no significant budget variances during the fiscal year.

Fund deficit - As of June 30, 2008, the City's Sewer Fund, an enterprise fund, has an accumulated unrestricted net asset deficit, in the amount of \$125,983, that arose from financing a capital project through an interfund loan from the Capital Improvement Fund. The Sewer Fund is expected to repay the loan over the next two years.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH:

Cash, as presented in the accompanying financial statements, consists of the following:

	<u>Govern- mental activities</u>	<u>Business- type activities</u>	<u>Fiduciary</u>	<u>Total primary government</u>	<u>Total component units</u>	<u>Total</u>
Deposits	\$1,715,255	\$ 606,620	\$ 80,843	\$ 2,402,718	\$ 205,285	\$2,608,003
Cash on hand	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Totals	<u>\$1,716,255</u>	<u>\$ 606,620</u>	<u>\$ 80,843</u>	<u>\$ 2,403,718</u>	<u>\$ 205,285</u>	<u>\$2,609,003</u>

Deposits with financial institutions - State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. As of June 30, 2008, \$2,283,403 of the City's bank balances (including those of the component units) of \$2,621,414 was exposed to custodial credit risk because it was uninsured. The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At June 30, 2008, the receivables of the City's funds are as follows:

<u>Funds</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
Governmental funds:			
General	\$ 40,873	\$ 132,546	\$ 173,419
Major Street	-	30,650	30,650
Nonmajor funds	<u>46</u>	<u>11,092</u>	<u>11,138</u>
Totals	<u>\$ 40,919</u>	<u>\$ 174,288</u>	<u>\$ 215,207</u>
Proprietary funds:			
Sewer	\$ 113,131	\$ -	\$ 113,131
Water	40,943	-	40,943
Nonmajor fund	<u>1,460</u>	<u>-</u>	<u>1,460</u>
Totals	<u>\$ 155,534</u>	<u>\$ -</u>	<u>\$ 155,534</u>

All receivables are due within one year and are considered fully collectible.

NOTE 5 - ASSETS HELD FOR RESALE - REDEVELOPMENT PROPERTY:

The Brownfield Redevelopment Authority, a component unit of the City, has acquired property for the purpose of economic development. The Authority intends to resell the property to private-sector purchasers. The proceeds of the potential sale of the property will be transferred to the City's General Fund which principally financed the acquisition.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 335,970	\$ -	\$ -	\$ 335,970
Capital assets being depreciated:				
Streets and sidewalks	363,729	81,610	-	445,339
Land improvements	859,093	6,089	-	865,182
Buildings and improvements	747,745	-	-	747,745
Equipment and vehicles	1,714,586	54,307	-	1,768,893
Subtotal	3,685,153	142,006	-	3,827,159
Less accumulated depreciation for:				
Streets and sidewalks	(32,614)	(19,547)	-	(52,161)
Land improvements	(463,654)	(33,075)	-	(496,729)
Buildings and improvements	(387,367)	(19,546)	-	(406,913)
Equipment and vehicles	(1,350,126)	(74,472)	-	(1,424,598)
Subtotal	(2,233,761)	(146,640)	-	(2,380,401)
Total capital assets being depreciated, net	1,451,392	(4,634)	-	1,446,758
Governmental activities capital assets, net	\$ 1,787,362	\$ (4,634)	\$ -	\$ 1,782,728

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated - land	\$ 48,196	\$ -	\$ -	\$ 48,196
Capital assets being depreciated:				
Sewer system	8,967,605	40,207	-	9,007,812
Water system	4,385,665	62,183	-	4,447,848
Airport	142,896	23,258	-	166,154
Subtotal	13,496,166	125,648	-	13,621,814
Less accumulated depreciation for:				
Sewer system	(4,966,587)	(201,561)	-	(5,168,148)
Water system	(1,691,299)	(113,277)	-	(1,804,576)
Airport	(111,173)	(7,338)	-	(118,511)
Subtotal	(6,769,059)	(322,176)	-	(7,091,235)
Total capital assets being depreciated, net	6,727,107	(196,528)	-	6,530,579
Business-type activities, capital assets, net	\$6,775,303	\$ (196,528)	\$ -	\$6,578,775

Depreciation expense was charged to the City's activities as follows:

Governmental activities:	
General government	\$ 6,689
Public safety	31,959
Public works	21,564
Culture and recreation	44,199
Depreciation on internal service fund assets	42,229
Total governmental activities	\$ 146,640
Business-type activities:	
Sewer	\$ 201,561
Water	113,277
Airport	7,338
Total business-type activities	\$ 322,176

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - PAYABLES:

At June 30, 2008, the payables of the City's funds are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental funds:				
General	\$ 33,365	\$ 31,312	\$ -	\$ 64,677
Major Street	369	2,570	-	2,939
Nonmajor funds	<u>270</u>	<u>3,929</u>	<u>-</u>	<u>4,199</u>
Totals	<u>\$ 34,004</u>	<u>\$ 37,811</u>	<u>\$ -</u>	<u>\$ 71,815</u>
Proprietary funds:				
Sewer	\$ 43,160	\$ 21,695	\$ -	\$ 64,855
Water	14,276	15,520	6,000	35,796
Nonmajor fund	<u>324</u>	<u>640</u>	<u>-</u>	<u>964</u>
Totals	<u>\$ 57,760</u>	<u>\$ 37,855</u>	<u>\$ 6,000</u>	<u>\$ 101,615</u>
Internal service - equipment	<u>\$ 4,031</u>	<u>\$ 7,573</u>	<u>\$ -</u>	<u>\$ 11,604</u>
Component units:				
Tax Increment Finance Authority	<u>\$ -</u>	<u>\$ 1,750</u>	<u>\$ -</u>	<u>\$ 1,750</u>
Brownfield Redevelopment Authority	<u>\$ 13,567</u>	<u>\$ 911</u>	<u>\$ -</u>	<u>\$ 14,478</u>
Downtown Development Authority	<u>\$ 35</u>	<u>\$ 786</u>	<u>\$ -</u>	<u>\$ 821</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2008, the composition of interfund balances follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Capital Improvement	<u>\$ 204,515</u>	Sewer	<u>\$ 204,515</u>

The Capital Improvement Fund provided an interfund loan to the Sewer Fund to finance a portion of the cost of capital improvements in prior years. The loan is to be repaid over the next two years.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

A summary of interfund transfers for the year ended June 30, 2008, are as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
General	\$ 97,685	Sewer	\$ 57,000
		Water	33,600
		Airport	1,365
		Equipment	<u>5,720</u>
			<u>97,685</u>
General	15,000	Fire Reserve	15,000
Equipment	27,000	Solid Waste	27,000
General	<u>872</u>	Local Street	<u>872</u>
Totals	<u>\$ 140,557</u>	Totals	<u>\$ 140,557</u>

The proprietary funds transferred \$97,685 to the General Fund as part of the City's payment in lieu of taxes program. The payments are classified as transfers as the transaction does not involve an exchange for services provided.

The Solid Waste Fund transferred \$27,000 to the Equipment Fund to finance a capital acquisition that would be used primarily for activities of the Solid Waste Fund.

The Fire Reserve Fund transferred \$15,000 to the General Fund to finance a portion of the costs of fire protection that are accounted for within the General Fund.

The Local Street Fund transferred \$872 to the General Fund to reimburse the General Fund for an overpayment in the prior year.

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - NONCURRENT LIABILITIES:

At June 30, 2008, noncurrent liabilities are comprised of the following individual issues:

Governmental activities:	
Accrued employee benefits	<u>\$ 135,237</u>
Business-type activities:	
Bonds payable:	
\$1,570,000 1999 Water Supply System revenue bonds - payable	
in annual installments ranging from \$65,000 to \$90,000, plus	
interest at 2.50%; final payment due October 2019	<u>\$ 970,000</u>

Noncurrent liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Compensated absences	<u>\$ 123,829</u>	<u>\$ 86,313</u>	<u>\$ 74,905</u>	<u>\$ 135,237</u>	<u>\$ -</u>
Business-type activities:					
1999 Revenue bonds	<u>\$ 1,040,000</u>	<u>\$ -</u>	<u>\$ 70,000</u>	<u>\$ 970,000</u>	<u>\$ 70,000</u>

At June 30, 2008, debt service requirements, with the exception of compensated absences, are as follows:

	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
Year ended June 30:		
2009	\$ 70,000	\$ 23,375
2010	70,000	21,625
2011	75,000	19,813
2012	75,000	17,937
2013	80,000	16,000
2014 - 2018	420,000	49,375
2019 - 2020	<u>180,000</u>	<u>4,500</u>
	<u>\$ 970,000</u>	<u>\$ 152,625</u>

City of Plainwell
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - RETIREMENT PLAN:

The City provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. The City contributes 10% of each qualified employee's base salary to the plan. The City's contributions are fully vested immediately. The City is not a trustee of the plan, nor is the City responsible for investment management of plan assets.

The City and employees made the required contributions of \$159,487 and \$148,094, respectively.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2008, is as follows:

Revenues	<u>\$ 16,272</u>
Expenses:	
Direct	15,360
Indirect	<u>1,536</u>
	<u>16,896</u>
 Deficiency of revenues over expenses	 <u>\$ (624)</u>

NOTE 12 - RISK MANAGEMENT:

The City is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 13 - CONTINGENCY:

The Tax Increment Finance Authority, a component unit of the City, has adopted a tax increment financing plan (the plan) that allows the Authority (the Authority) to expend tax increment revenues for purposes of furthering the development program contemplated in the plan. At June 30, 2008, the Authority's fund balance was \$157,349. The Authority intends to use the available fund balance to complete the development program. However, any funds remaining after completion of the development program shall revert proportionately to the respective taxing entities, including the City, from which the tax increment revenues were derived.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2008

	<i>Original budget</i>	<i>Amended budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES				
Property taxes	\$ 1,201,600	\$ 1,202,600	\$ 1,199,538	\$ (3,062)
Licenses and permits	53,000	53,000	53,890	890
State grants	425,000	425,000	411,990	(13,010)
Intergovernmental	36,000	36,000	55,398	19,398
Fines and forfeitures	17,800	17,800	26,608	8,808
Interest	28,020	28,020	33,215	5,195
Other	2,692	43,361	22,790	(20,571)
Total revenues	<u>1,764,112</u>	<u>1,805,781</u>	<u>1,803,429</u>	<u>(2,352)</u>
EXPENDITURES				
Legislative - City Council	<u>9,152</u>	<u>9,152</u>	<u>9,150</u>	<u>2</u>
General government:				
Elections	18,334	18,334	15,469	2,865
Administration	231,732	231,732	215,640	16,092
Assessor	24,485	24,485	24,805	(320)
Building and grounds	108,132	124,337	114,899	9,438
Community promotion	3,850	3,850	1,118	2,732
Total general government	<u>386,533</u>	<u>402,738</u>	<u>371,931</u>	<u>30,807</u>
Public safety:				
Department of Public Safety:				
Police protection	962,101	979,365	959,478	19,887
Fire protection	145,284	145,284	114,797	30,487
Total public safety	<u>1,107,385</u>	<u>1,124,649</u>	<u>1,074,275</u>	<u>50,374</u>
Public works:				
Department of Public Works	69,478	69,478	69,005	473
Street lighting	29,530	32,030	32,442	(412)
Total public works	<u>99,008</u>	<u>101,508</u>	<u>101,447</u>	<u>61</u>
Community and economic development - community development	<u>74,944</u>	<u>74,944</u>	<u>75,411</u>	<u>(467)</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture:				
Parks	\$ 93,000	\$ 101,500	\$ 105,059	\$ (3,559)
Flowers and beautification	24,511	26,056	23,603	2,453
Special events	15,293	15,293	16,129	(836)
Forestry	3,010	3,010	1,653	1,357
School recreation	5,520	5,520	5,520	-
Total recreation and culture	<u>141,334</u>	<u>151,379</u>	<u>151,964</u>	<u>(585)</u>
Capital outlay	<u>47,500</u>	<u>49,000</u>	<u>33,942</u>	<u>15,058</u>
Total expenditures	<u>1,865,856</u>	<u>1,913,370</u>	<u>1,818,120</u>	<u>95,250</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(101,744)</u>	<u>(107,589)</u>	<u>(14,691)</u>	<u>92,898</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
Sewer Fund	57,000	57,000	57,000	-
Water Fund	33,600	33,600	33,600	-
Airport Fund	1,365	1,365	1,365	-
Equipment Fund	5,720	5,720	5,720	-
Fire Reserve Fund	15,000	15,000	15,000	-
Local Street Fund	-	-	872	872
Total other financing sources	<u>112,685</u>	<u>112,685</u>	<u>113,557</u>	<u>872</u>
NET CHANGE IN FUND BALANCES	10,941	5,096	98,866	93,770
FUND BALANCES - BEGINNING	<u>307,136</u>	<u>307,136</u>	<u>307,136</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 318,077</u>	<u>\$ 312,232</u>	<u>\$ 406,002</u>	<u>\$ 93,770</u>

City of Plainwell

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 192,750	\$ 192,750	\$ 191,183	\$ (1,567)
Intergovernmental	12,000	12,000	16,855	4,855
Interest	8,000	8,000	5,042	(2,958)
Other	-	9,000	2,222	(6,778)
	<u>212,750</u>	<u>221,750</u>	<u>215,302</u>	<u>(6,448)</u>
Total revenues				
EXPENDITURES				
Public works:				
Preservation	172,773	219,734	220,757	(1,023)
Traffic services	17,462	24,218	17,055	7,163
Winter maintenance	44,846	51,846	51,456	390
Administration	10,108	10,108	10,545	(437)
	<u>245,189</u>	<u>305,906</u>	<u>299,813</u>	<u>6,093</u>
Total expenditures				
NET CHANGE IN FUND BALANCES	(32,439)	(84,156)	(84,511)	(355)
FUND BALANCES - BEGINNING	<u>202,937</u>	<u>202,937</u>	<u>202,937</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 170,498</u>	<u>\$ 118,781</u>	<u>\$ 118,426</u>	<u>\$ (355)</u>

City of Plainwell

BUDGETARY COMPARISON SCHEDULE - Fire Reserve Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 90,300	\$ 90,300	\$ 90,257	\$ (43)
Interest	<u>25,000</u>	<u>25,000</u>	<u>28,868</u>	<u>3,868</u>
Total revenues	115,300	115,300	119,125	3,825
EXPENDITURES				
General government	<u>150</u>	<u>150</u>	<u>150</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	115,150	115,150	118,975	3,825
OTHER FINANCING USES				
Transfer out - General Fund	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	100,150	100,150	103,975	3,825
FUND BALANCES - BEGINNING	<u>589,079</u>	<u>589,079</u>	<u>589,079</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 689,229</u>	<u>\$ 689,229</u>	<u>\$ 693,054</u>	<u>\$ 3,825</u>

BUDGETARY COMPARISON SCHEDULE - Capital Improvement Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 90,300	\$ 90,300	\$ 90,257	\$ (43)
Interest	<u>8,053</u>	<u>13,153</u>	<u>13,159</u>	<u>6</u>
Total revenues	<u>98,353</u>	<u>103,453</u>	<u>103,416</u>	<u>(37)</u>
EXPENDITURES				
General government	150	150	150	-
Public works	<u>198,944</u>	<u>209,144</u>	<u>209,144</u>	<u>-</u>
Total expenditures	<u>199,094</u>	<u>209,294</u>	<u>209,294</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(100,741)	(105,841)	(105,878)	(37)
FUND BALANCES - BEGINNING	<u>485,771</u>	<u>485,771</u>	<u>485,771</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 385,030</u>	<u>\$ 379,930</u>	<u>\$ 379,893</u>	<u>\$ (37)</u>

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - nonmajor governmental funds

June 30, 2008

	<u>Special revenue funds</u>		<i>Total nonmajor governmental funds</i>
	<u>Local Street</u>	<u>Solid Waste</u>	
ASSETS			
Cash	\$ 130,706	\$ 63,921	\$ 194,627
Receivables	<u>11,092</u>	<u>46</u>	<u>11,138</u>
Total assets	<u>\$ 141,798</u>	<u>\$ 63,967</u>	<u>\$ 205,765</u>
LIABILITIES AND FUND BALANCES			
Liabilities - payables	\$ 1,963	\$ 2,236	\$ 4,199
Fund balances - unreserved, undesignated	<u>139,835</u>	<u>61,731</u>	<u>201,566</u>
Total liabilities and fund balances	<u>\$ 141,798</u>	<u>\$ 63,967</u>	<u>\$ 205,765</u>

City of Plainwell

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - *nonmajor governmental funds***

Year ended June 30, 2008

	<u>Special revenue funds</u>		<i>Total nonmajor governmental funds</i>
	<u>Local Street</u>	<u>Solid Waste</u>	
REVENUES			
Property taxes	\$ -	\$ 152,116	\$ 152,116
State grant	77,690	-	77,690
Intergovernmental	72,853	-	72,853
Interest	6,318	7,442	13,760
Other	<u>527</u>	<u>1,821</u>	<u>2,348</u>
Total revenues	157,388	161,379	318,767
EXPENDITURES			
Public works	204,488	159,529	364,017
Capital outlay	<u>-</u>	<u>27,926</u>	<u>27,926</u>
Total expenditures	<u>204,488</u>	<u>187,455</u>	<u>391,943</u>
DEFICIENCY OF REVENUES OVER EXPENDITURE	(47,100)	(26,076)	(73,176)
OTHER FINANCING USES			
Transfers out	<u>(872)</u>	<u>(27,000)</u>	<u>(27,872)</u>
NET CHANGE IN FUND BALANCES	(47,972)	(53,076)	(101,048)
FUND BALANCES - BEGINNING	<u>187,807</u>	<u>114,807</u>	<u>302,614</u>
FUND BALANCES - ENDING	<u>\$ 139,835</u>	<u>\$ 61,731</u>	<u>\$ 201,566</u>

OTHER SUPPLEMENTARY DATA

City of Plainwell

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$1,570,000 1999 WATER SUPPLY SYSTEM BONDS**

June 30, 2008

<i><u>Fiscal period</u></i>	<i><u>Interest requirements</u></i>		<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
	<i><u>October 1</u></i>	<i><u>April 1</u></i>			
2009	\$ 12,125	\$ 11,250	10/01/08	\$ 70,000	\$ 93,375
2010	11,250	10,375	10/01/09	70,000	91,625
2011	10,375	9,438	10/01/10	75,000	94,813
2012	9,437	8,500	10/01/11	75,000	92,937
2013	8,500	7,500	10/01/12	80,000	96,000
2014	7,500	6,500	10/01/13	80,000	94,000
2015	6,500	5,500	10/01/14	80,000	92,000
2016	5,500	4,438	10/01/15	85,000	94,938
2017	4,437	3,375	10/01/16	85,000	92,812
2018	3,375	2,250	10/01/17	90,000	95,625
2019	2,250	1,125	10/01/18	90,000	93,375
2020	<u>1,125</u>	<u>-</u>	10/01/19	<u>90,000</u>	<u>91,125</u>
	<u>\$ 82,374</u>	<u>\$ 70,251</u>		<u>\$ 970,000</u>	<u>\$ 1,122,625</u>

October 29, 2008

To the City Council
City of Plainwell

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Plainwell for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 9, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Plainwell are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the City of Plainwell during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the City's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended June 30, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Plainwell's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the City of Plainwell as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Plainwell's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following control deficiency constitutes a material weakness.

The City has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The City has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the City Council of the City of Plainwell and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.